



President's Management Agenda: Results for the Department of Defense

A Report to the Force

July 21, 2005

THE PRESIDENT'S MANAGEMENT AGENDA

DEPARTMENT OF DEFENSE RESULTS

The Department of Defense has made significant achievements since beginning to implement the President's Management Agenda (PMA). We have made progress in providing value-added results within the Department. We use the PMA to more effectively and efficiently manage the Department with a results oriented approach. The PMA provides the managerial and operational discipline that leads to better results and attainment of goals, both internally and externally.

The PMA identifies five Government-wide initiatives designed to improve management performance and service to our citizens. These initiatives include: the Electronic Government; Strategic Management of Human Capital; Eliminating Improper Payments, Improved Financial Performance; Budget and Performance Integration, Competitive Sourcing, and Real Property Management.

We have cascaded the PMA to the Services and Defense Agencies, empowering them to apply the principles of the PMA in a results oriented manner for their benefit, thus benefiting the entire Department. Our employees, military and civilian, are committed to producing an organization whose focus is on performance and results. The following shares our specific results and accomplishments over the past year.

Electronic-Government Initiative

In support of the Federal-wide unification and simplification of services, whose ultimate beneficiaries are our citizens and our employees, several Defense capabilities are part of the Federal solutions, including the Integrated Acquisition Environment, SmartBUY, Grant.gov, Defense Travel System, and various education and training initiatives.

Our commitment has yielded significant results including:

- **Integrated Acquisition Environment**

The Department of Defense's Defense Procurement and Acquisition Policy office is the lead for the implementation of E-Gov's Integrated Acquisition Environment, which is a portfolio of systems and initiatives that support

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procurement and procurement-related processes throughout the government. This ongoing implementation supports both federal and DoD goals of strategic and cost-effective acquisition and delivery of the best possible goods and services to the Warfighter, as well as unification and simplification of the acquisition business environment to support this delivery. Some of our key accomplishments include:

- Adapting existing DoD programs for Federal-wide use as a part of the IAE portfolio. The Federal versions of DoD's Central Contractor Registry, DoD Technical Data Solution, and Past Performance Information Retrieval System are all now Federal award-winning programs under the IAE mantel. All three are the single authoritative sources for the processes they support, both for the federal government workforce and industry. This simplifies the way the government does business, as well as the way industry interacts with us.
- We have deployed systems developed under IAE across the Department, including the On-line Representations and Certifications Application and Federal Business Opportunities. These systems support standard methods of industry interaction with the federal government for procurement-related processes, providing industry single on-line locations to find and provide the related information.

- **Grants.gov**

- Grants.gov has been operational since October 1, 2003. DoD has been influential in shaping the policy related to Grants.gov FIND and APPLY.
- Earlier this year, with the advice and assistance of DoD Counsel, we were successful in having language added to the electronic application to better reflect the legal effect of submitting an application electronically through Grants.gov. This language will appear on all versions of the application forms employed by Grants.gov.
- Operationally, DoD Components are posting solicitations that may result in assistance agreements at Grants.gov FIND. DoD monitors that site for the Components' compliance with the required solicitation format. Use of Grants.gov FIND and the standard solicitation announcement gives the public and other constituencies greater insight into our programs and funding. These changes have the potential to expand our research base by

making our program information more widely available. We plan to begin receiving proposals through Grants.gov in FY 2006.

- **Defense Travel Service**

- DoD fully supports the PMA eTravel initiative through the Defense Travel System (DTS). DTS is more expansive in scale, scope, and functionality than the GSA eTravel Service (eTS), which is being implemented in non-defense agencies. DoD and GSA closely collaborate on a wide range of Federal travel issues, seeking common solutions where appropriate. The current joint endeavor possessing the greatest potential to save the Department considerable funding is Business Data Warehouse/Business Intelligence (BI). This initiative will provide the Department new information concerning DoD business travel and travel vendor use. We intend to leverage this intelligence when negotiating with commercial travel service providers to achieve discounted rates. Because the Federal Government spends over \$13B per fiscal year on travel, even small improvements yield considerable savings. For instance, a 1% change in Federal travel expenditures yields ~\$132M in tangible savings. The DTS program highlights are discussed below:

- Deployment. DTS is being deployed to approximately 11,000 sites world-wide. As of the end of May 2005, 165 of the 272 high-volume sites which generate about 80% of DoD travel had been fielded, along with 5052 smaller sites. When deployed, DTS enables process reengineering and about a 50% reduction in the number of travel process steps. The target date for full deployment is the end of FY06.
- Operations. DTS has processed 618,500 travel vouchers through May 2005. Monthly transaction volume continues to increase as usage expands and as additional sites are added. Half of DTS travelers are paid in less than 4.5 days, a several week reduction compared to legacy voucher reimbursement time. The system averages 99.75% user availability.
- Expected results. When DTS is fully deployed, the cost of a voucher processed through DTS will be about 80% less than the cost of a legacy voucher. The expected full deployment volume is about 3.2M users producing around 5.6M

vouchers per year. DTS will process about \$4.2B in annual business travel.

- **Education and Training Initiatives**

- Organizational Transformation Certificate Program. DoD has established a new Organizational Transformation Certificate Program at the Information Resources Management College (IRMC). The new certificate program is focused on developing current and next-generation leaders who can anticipate and implement the cross-boundary and cross-disciplinary transformational changes required to establish a net-centric environment which serves the citizen, warfighter and the business mission equally well. Students may specialize in Electronic Government, National Security, Domestic Preparedness or the Business of Government. Selected coursework supports the key PMA elements – improved performance and strategic management of human capital. This program replaces the current eGovernment Leadership Certificate Program at IRMC.
- Enterprise Architecture (EA). The IRMC also inaugurated a new EA Certificate Program in January 2005. The EA Certificate Program is organized around seven core competencies for EA issued by the Federal CIO Council, and builds on one of the eleven CIO core competencies - Architectures & Infrastructures. The program includes a choice of classes concentrating on either DoD and Federal architectures as well as a final practicum course where students will apply their learning to solve real-world enterprise architecture challenges. In order to fully reflect the integration of EA skill requirements within the IT workforce, DoD is currently working with the Office of Personnel Management and the Federal CIO Council to establish an Enterprise Architecture specialty title within the 2210 series.
- Information Assurance (IA). A soon-to-be published DoD manual will establish standards for identifying all IA workforce positions, specify certification requirements for IA technical and management personnel, coordinate manpower/personnel database collection requirements, and mandate management reporting/review actions. DoD is working with DHS on its establishment of national IA standards, developing contractor IA certification requirements for the Defense Federal Acquisition DFARS, and pursuing initiatives that have enterprise-wide potential to reduce training costs.

- IT Scholarship Opportunities. DoD continues to expand the IT and IA education opportunities available through our Information Assurance Scholarship Program. One hundred and fifty students have participated in this program, with 65 graduated to date. We continue to enhance the flexibility of the program to meet emerging needs. Part-time master's degree programs have been established; enlisted participation at the Naval Postgraduate School is being added; and the number of partnership arrangements with civilian Centers of Academic Excellence continues to grow.

- **SmartBUY**

- The DoD (ESI) team actively participated in the cross-agency SmartBUY team, allowing our Federal partners to leverage our lessons learned in all areas: governance; policy; project management; requirements collection; funding; acquisition strategies; business case development; negotiation strategies; managing change; and vendor relations.
- The close SmartBUY-ESI working relationship led to the award of three “co-branded” SmartBUY agreements that the ESI team negotiated on behalf of the entire Federal government (Oracle, ProSight, WinZip). With the Oracle SmartBUY agreement, civilian agencies now get all ESI discounts and improved terms and conditions, plus even better discounts and terms and conditions on large orders and enterprise licenses. The ESI-SmartBUY team was able to negotiate this agreement in four weeks after CIO Council members and Oracle had deadlocked. The WinZip and ProSight SmartBUY agreements more closely followed the ESI process and leveraged large Army purchases to obtain low prices for the whole Federal government, one of the ESI best practices.
- The ESI/GSA team that successfully negotiated the major SmartBUY-ESI Oracle agreement was recognized in May 2005 with the Federal CIO Council Executive Leadership Award. This is the top award given by the Council, and helps SmartBUY gain needed cooperation and support for future agreements. It also reinforces with software companies that OMB and the Council actively supports the program.

Strategic Management of Human Capital Initiative

Taking care of people, building and sustaining a high performing organization, and positioning our personnel systems for our 21st century challenges are critical elements of our human capital strategy.

All Department of Defense Components continue to support the Workforce Planning and Restructuring initiatives in the following areas: Major Headquarters Reductions, Planned Reorganizations, Reduction in the Number of Managers and Supervisors, Projected Outsourcing Efforts, and Reengineered or Streamlined Processes Resulting in Efficiencies or Savings. During FY 2004, Defense Components identified manpower savings that comply with Congressionally-mandated 15 percent Major Headquarters Reductions.

For example, the Department of the Air Force met its FY 2004 goal in Major Headquarters Reduction of 15 percent through the use of workforce shaping strategies and

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HR flexibilities. The Department of the Army Headquarters Realignment Plan implemented aggressive and sweeping changes to roles, functions, and the organization of Army Headquarters (HQDA).

The Department of Defense Workforce Restructuring Plan and our Human Resources Strategic Plan performance measures are valuable tools that enable effective monitoring of the Department’s ability to meet current and future Human Capital needs and accomplish the Administration’s objectives. Additionally, DoD has issued policy regarding the use of Voluntary Separation Incentive Pay (buyout) allocations to the Components for FY 2004 and FY 2005. Quarterly monitoring of usage clearly indicates that DoD is judiciously applying buyout and early retirement authorities to shape the force as necessary.

The Department’s Priority Placement Program (PPP) is the primary vehicle for placing employees who have been affected adversely due to workforce reductions, transfer of functions, and base realignments and closures (BRAC). In preparation for the next round of BRAC, the Department established the Base Realignment and Closure (BRAC) 2005 Working Group (consisting of members from DoD Components and Defense Agencies). The BRAC Working Group exchanges general information, assesses private sector transition assistance programs, evaluates the best practices/lessons learned from previous BRAC rounds,

and recommends applicable Departmental guidance, publications, and services in advance of BRAC 2005.

Workforce costs are reviewed quarterly in the Status of Forces Briefing process. This ensures that cost reduction is a part of management decisions. Beginning in FY 2005, the Base Realignment and Closure (BRAC) process will play a significant role in DoD restructuring efforts.

Right Person in Right Job at Right Time

Fill rate is one component of assessing skill gaps for mission critical occupations, assessing competency gaps is another important element. The Department is approaching this from two directions: convening study groups to focus on specific competencies required in core, critical occupations across the Department and by recurring reviews of metrics that identify competency gaps in the workforce.

Specifically, the Department recently initiated a project to identify the fundamental competencies and expertise needed by general/flag officers, SESs and Senior NCOs (E-9s) serving in joint positions, to identify gaps between required and available competencies and to develop proposals to close the gaps.

In another initiative, the Department chartered a Competency Working Group to examine the core DoD competencies associated with the development and progression in career fields. Competencies identification will create a foundation for developing Total Force human applications and investment in such areas as recruitment, selection, performance management, training and development, and strategic workforce shaping. The alignment of core competencies with mission requirements will result in a more flexible, agile, and mission-focused DoD workforce.

The Department continues to perform thorough reviews of historical and projected loss and turnover rates for these Mission Critical Occupations quarterly. In light of findings from these reviews, the Department submitted and received approval for direct-hire authority for severe shortages in Forensic Biologist position, GS-0401-9 through 13 located at the U.S. Army Criminal Investigation Laboratory and successfully sought special pay rates for accountants and law enforcement occupations.

Successful Uses of Electronic Government in Human Capital Management

The two most challenging events in human capital management in the near and long terms are the implementation of the National Security Personnel System and the Base Realignment and Closure (BRAC). Having ready access to the most current information is critical for both organizational and personal decisions. To assist employees, supervisors, and commanders affected by BRAC, the Department developed and launched a comprehensive website on May 13, 2005. It can be accessed at http://www.cpms.osd.mil/bractransition/Job_Placement.htm. Additionally, internet-based PPP distance learning modules were developed to provide cost-effective training to reach all HR specialists involved with RIF and placement activities. To ensure that Department workforce is informed about the implementation of NSPS, the Department developed and launched a comprehensive website which can be accessed at <http://www.cpms.osd.mil/nsps/>. Topics include supervisory communication, helping organizations thrive under NSPS, and the role of the human resources practitioner. The successful transition to NSPS with practical advice on what employees can do now to prepare.

Timely, Accurate Information with which to Make Smart Decisions

The Department uses surveys as a part of its accountability mechanisms. For example, the annual Status of Forces Survey of DoD Civilians is used to determine civilian employees opinions and satisfaction levels on various HR issues such as pay, benefits, and retirement intentions. Results from this survey are analyzed and uses as a basis to develop new policy or programs. The Customer survey, a survey of all Components' view of HR services, is an example of another survey used to shape policy and program. These surveys provide continuous feedback on how the Department is performing in selected areas and allow policies and programs to be changed to meet emerging needs. Finally, the Department develops annual legislative proposals to address changing human resource needs.

Scorecard Process Reinforces Continual Improvement

The scorecard process parallels the Department's ongoing efforts to continually improve its policy and processes. Many of the initiatives and programs addressed in this document were developed and implemented by the department as a result of its internal analysis processes. However, the scorecard serves to highlight the importance of these initiatives and gives creditability to the direction the Department is taking.

Building a Performance Culture

DoD is institutionalizing a performance-based culture at all levels. At the senior level, DoD developed an inclusive pay-for-performance strategy for application at SES and senior management levels. The design of the system grew out of the Department's experience with pay-for-performance strategies at selected demonstration labs. A request for provisional certification was sent to OPM in December 2004. The request included a subchapter detailing the pay and appraisal systems for the DoD's executives and senior professionals. The system, when implemented, promotes accountability by directly linking compensation to performance and will pay the highest performing SES members above the rate for level III of the Executive Schedule, up to the rate for level II of the Executive Schedule.

Throughout 2004, officials from the Department of Defense and the Office of Personnel Management were engaged in an effort to design a modernized, performance-based civilian personnel system called the National Security Personnel System (NSPS). They established six design Working Groups that included human resources experts, military members, line managers, and functional area experts from the Equal Employment Opportunity, labor relations, legal, and comptroller communities.

The design and development of NSPS has been and continues to be a very collaborative effort. The Department sought input into the process from its employees, employee representatives, veterans' service organizations and various public interest groups. Department of Defense officials have conducted over 100 employee focus groups and 50 town hall meetings worldwide to gather input from employees, supervisors, union officials, and HR practitioners. The data collected from all of those sessions were reviewed and assessed by the Working Groups, along with reports from existing alternative personnel systems, existing Department of Defense personnel demonstration projects, and other Federal agencies. The Working Groups used this information to assist in developing a series of options for consideration by Department of Defense senior leadership for the design of NSPS.

That massive effort led to the February 14, 2005 publication in the *Federal Register* of a proposed regulation that outlined the fundamental features of NSPS. Public comments were solicited through March 16, 2005, with over 58,000 comments received from employees, employee representatives, interest groups, elected officials and the general public. The Department has reviewed and analyzed these comments and will consider them as they finalize the regulations.

The Department and the Office of Personnel Management recently concluded a statutory “meet and confer” process with DoD’s employee representatives in an effort to find common ground on issues raised by the unions and the employees they represent. This process, facilitated by the Federal Mediation and Conciliation Service, provided a valuable opportunity to hear directly from our employee representatives on their most important issues and concerns. The Department is now preparing to advise Congress of the results and finalize the regulation.

NSPS is an essential element of the Department’s overall transformation. It will provide the Department with a more flexible means of managing its civilian workforce while preserving employee rights and protections. Our civilians are critical to accomplishing our national security mission. NSPS will not only benefit the Department, but will also benefit our employees, as they will have opportunities to expand their individual growth.

Eliminating Improper Payments Initiative

The Department maintains a vigorous review process to identify and prevent duplicate vendor payments and make sure program dollars are spent as intended.

This review process includes pre- and post- payment reviews, continual enhancements to commercial payment systems to detect potential erroneous payments prior to disbursement, post-payment reviews of all commercial payments within 180 days of disbursement, and continual review by the Inspector General, Department of Defense, of purchase and travel card payments. Since the inception of the program, we have accomplished:

“Through the use of recovery auditing vendors, the Department has collected \$18.4 million since inception of the program.”

Tools to Ensure Money Buys More Every Year

- Internal reviews identified \$122.2 million in erroneous commercial payments in fiscal year 2003. This amount represents 0.08 percent of the total payments (\$146 billion) reviewed by the Department. Preliminary information indicates that for the first 6 months of fiscal year 2004, internal review identified \$24.0 million in erroneous payments or 0.03 percent of total commercial payments (\$75.1 billion) reviewed by the Department. This review runs concurrently with the review of the payments made in the second half of fiscal year 2004 (which has, to date, identified \$11 million in erroneous payments).

- Through the use of recovery auditing vendors, the Department has collected \$18.4 million since inception of the program. The Department maintains an aggressive internal pre- and post-payment review process that identifies overpayments, to include duplicate payments, before providing the payment information files to the recovery auditing vendor for review.
 - The Department has fully implemented the requirements of the “Improper Payments Information Act,” (IPIA) as outlined in Office of Management and Budget (OMB) guidance dated May 21, 2003, and, for the fiscal year 2005 survey, improved its techniques to identify erroneous payments.
 - An IPIA survey in fiscal year 2004 was conducted for programs and activities susceptible to erroneous payments. The survey was performed in accordance with OMB guidance and included the performance of risk assessments and estimating erroneous payments. No programs were found to be at a high risk for erroneous payments or to have exceeded the OMB thresholds of 2.5 percent of program payments and \$10 million.
 - The fiscal year 2005 IPIA survey (performed in November 2004) included an additional requirement that risk assessments address the strength of the internal controls in place to prevent erroneous payments (such as prepayment reviews), system weaknesses identified internally or by outside audit activities (by audit and/or review), and voluntary returns of overpayments by vendors.
 - The Department has also developed a database that serves as a central repository of all erroneous payments. The database includes both overpayments and underpayments, and provides the capability to perform critical analysis and consolidated, consistent, monthly/annual reporting.
- Established statistically valid estimates of erroneous payment for programs and activities identified using Office of Management and Budget (OMB) criteria.
 - Two of the Department’s programs and activities, Military Retirement Fund and Military Health Program, were identified based on the OMB requirements that statistically valid estimates be established for

programs and activities previously included in Section 57 of OMB Circular A-11. These programs were reported in the Performance and Accountability Report (PAR) for fiscal years 2003 and 2004.

- During the fiscal year 2005 survey, Military Pay was identified as an activity with a high risk of erroneous payments specifically in the area of Reserve Forces and National Guardsmen being called to active duty. The Department is preparing a statistically valid estimate for erroneous payments as well as outyear reduction targets. The reduction targets will be submitted for OMB approval in the Third Quarter 2005.

In the future, we will work toward continual improvements by:

- Improving the quality of the annual IPIA risk assessment and estimates for erroneous payments.
- Ensuring that the Department meets or exceeds the OMB approved reduction targets for the programs and activities where a statistically valid estimate of erroneous payments has been established.
- Identifying additional opportunities for stratification of programs and activities to target areas that otherwise would not meet the OMB criteria for further reporting.

Improved Financial Performance Initiative

The Improved Financial Performance Initiative (IFPI) is ensuring that financial data is used to manage, make course corrections, maximize resources, and ensure that programs achieve expected results and work towards continual improvement.

Financial management is more than knowing how to plan and execute a budget; it is about knowing what DoD has, needs, and how DoD uses what it is given to perform its primary mission -- the defense of our country and our way of life. The improved business processes, information systems, and data associated with the IFPI are planned to support the Department's transformation to modern, accrual-based financial operations and adherence to best commercial practices. These improvements will permit DoD to make more efficient and effective business decisions, affirm the credibility of the Department's financial statements, and

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improve support to the warfighter. The Department continues to improve on using financial data to drive results in key areas and expand routine data usage. Our accomplishments include:

Focus on Outcomes and Efficiency Goals

- Reduced Federal Manager Financial Integrity Act (FMFIA) Section 2 material weaknesses to 46 from 115 in FY 2001, a 60 percent reduction. These are weaknesses in management controls typically resulting from usage of obsolete financial systems or processes, that warrant reporting to a higher level and usually affect a single DoD organization.
- Reduced accounting adjustments to \$201 billion during FY 2005. A 91 percent reduction from \$2.3 trillion in 1999. This is a major step in complying with financial audit standards. This progress can be contributed to the issuance of standard guidance, training of staff, internal audit reviews, and continuous monitoring through metric reporting.
 - Reduced occurrences where payments exceed the amount of obligations (Negative Unliquidated Obligations (NULO's). We reduced NULO's down to \$198 million in March 2005. This is a reduction from \$1.2 billion in FY 2001, an 84 percent reduction.
 - Reduced the number of Appropriations with Negative Balances by 2 in FY 2005. This brings the total to 4 (\$5 million) in March 2005, down from 14 in FY 2001 (\$120.7 million). This is a 71 percent reduction in the number and a 99 percent reduction in the dollar value.
 - Closed 7 Anti-Deficiency Act Violation cases in FY 2005, bringing the total cases closed to 107 since FY 2001.
 - Maintained the purchase card delinquency rate in FY 2005 at 2.7 percent.
- Reduced the average interest penalties in FY 2005 to \$163 per million dollars paid. Since FY 2001, the average annual interest penalties decreased from \$345 per million dollars paid, a 52 percent decrease. The average annual interest penalties per million dollars paid declined as a result of improvements in our business operations.
- Increased the use of electronic funds transfer in FY 2005 by 2 percent. Since FY 2003, we have increased our usage from 91 percent to 94 percent.

- Implemented Department-wide management initiatives to improve our Centrally Billed Account and Individually Billed Travel Card Programs.
 - We continue to work at reducing the centrally billed accounts delinquencies. Since FY 2001, the percentage has decreased from 14.3 percent to 1.3 percent in March 2005, a 90 percent reduction.
 - We continue to work at reducing the individual billed travel accounts delinquencies. Since FY 2001, the percentage has decreased from 18.4 percent to 3.6 percent, an 80 percent reduction. This decrease enabled increased rebates from the bank and put us in a better negotiating position for future contract negotiations.
- Reduced the average FY 2005 total suspense accounts (3800 series) by \$1.629 billion. Since FY 2001, the average total suspense accounts (3800 series) were reduced from \$7.1 billion to \$2.4 billion in FY 2005, a 67 percent reduction.

Timely, Accurate Information with which to make Smart Decisions

- Six of the Department's financial reporting entities received unqualified audit opinions, one received a qualified opinion, and of the Department-wide financial statements, three line items (Appropriations Received, Federal Employee Contribution Act Liabilities, and Investments) received favorable audit results. Today, we have clean opinions on 16 percent of the Department's assets and 49 percent of the Department's liabilities.
- We have identified five focus areas for continued financial improvement. These areas focus on processes that we are fixing to produce more reliable, accurate, and complete data for use in key management decisions. The focus areas include Military Equipment, Environmental Liabilities, Health Care, Real Property, and Marine Corps Financial Statements.
 - Developed metrics for the Military Equipment (ME) valuation, Environmental Liabilities, Health Care, and Real Property to correct material weaknesses that hinder the ability to obtain a favorable audit opinion. As of May 2005, 704 of the 1,090 ME programs identified have been valued.
 - Developed and coordinated 10 principle based business rules for ME. This will improve visibility of military equipment items and its age,

will support acquisition and disposition decisions, and provide a basis for fully costing operations, programs, and activities.

- Developed a plan of action and milestones for formulating a reconciliation process for Health Care financial data and published Department-wide policy on coding of medical records for Health Care.
- Developed a template for use in gathering and measuring progress for the four critical areas of real property valuation and developed a proposal for a revised Capitalization threshold.
- Two of the military departments (Air Force and Army) are almost ready for audit confirmation of the “Fund Balance with Treasury” line items on their respective balance sheets. This represents 12 % of the Department’s assets. Favorable audit results for these line items will affirm the accuracy of a large portion of our account balance with Treasury and provide a baseline for confirming the accuracy of other line items such as accounts payable.
- We have established the Defense Business Systems Management Committee (DBSMC). As chairman of the committee, the Deputy Secretary of Defense designated the Under Secretary of Defense (Acquisition, Technology and Logistics) (USD(AT&L)) as the vice chair. Concurrent with that designation, the USD(AT&L) has assumed direct responsibility for the program management of the Business Management Modernization Program (BMMP). The USD (AT&L) has established BMMP as an Acquisition Category ID program to ensure it receives appropriate Program Management and Oversight, and Appointed a Special Assistant for Business Transformation as his Principal Staff Assistant responsible for managing the BMMP program. This will facilitate better centralized tracking of cost, schedule, and performance for the critical DoD enterprise business systems programs.

Budget and Performance Integration Initiative

The Budget and Performance Integration Initiative (BPPI) is ensuring that performance is routinely considered in funding and management decisions, and that programs achieve expected results and work toward continual improvement.

During FY 2005, we developed and defended the FY 2006 budget for the Department of Defense (DoD), which requested \$419.3 billion in DoD

discretionary budget authority for FY 2006. The budget supports priorities established by Secretary Rumsfeld to fulfill the President's pledges to defeat global terrorism, restructure America's armed forces and global defense posture, develop and field advanced warfighting capabilities, and take good care of our forces. To develop this budget, we continued to implement the new Planning, Programming, Budgeting, and Execution (PPBE) process, developing the PPBE's first full 2-year budget. This process increases the effectiveness of the Department resource allocation by linking performance results to programming and budgeting decisions and placing additional emphasis on program execution.

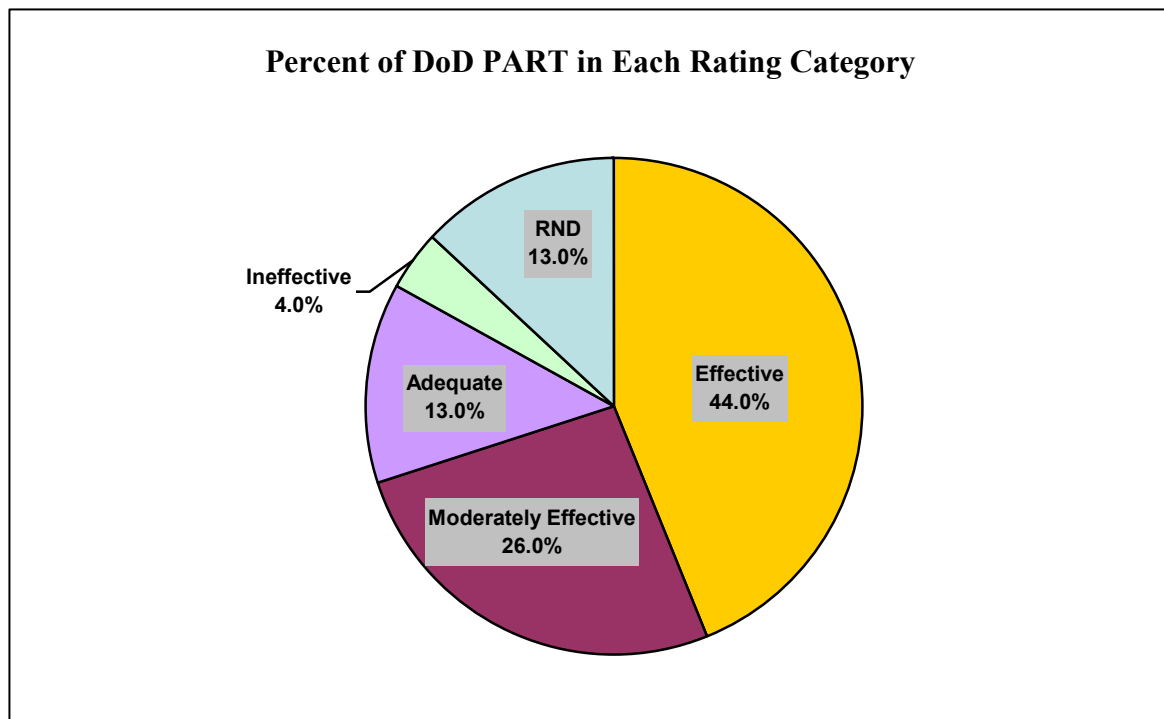
"Missile Defense – Refocused the organization on more cost-effective missile defense systems, while deterring high-risk, high-cost developments. This allowed for \$5 billion in savings through the FYDP."

The Department addressed the marginal costs of achieving goals during the development of its FY 2006 President's budget by considering alternatives that made performance trade-off decisions more focused and useful. For example:

- Program-Budget Integration Assessments were conducted for Operation and Maintenance and Military Personnel programs. The assessments included a review of performance and budget metrics for the Department's readiness programs. Using the assessment data, the Department was able to identify areas to adjust funding downward and other areas to increase. For example, utilities costs for base support were increased for utilities privatization, but they were offset with the anticipated savings from the Army Business Reengineering Initiative and the decreased requirements for depot maintenance.
- For Investment programs, the Department examined program and funding execution and assessed cost, schedule, and performance data. The Department effected structural changes in our performance measures and budget exhibits that relate specific measures and goals to the various programs. These new goals and measures document the processes we have used for several years to improve and focus the budget. The following adjustments were made based on evaluations of performance data and assessments of how programs contributed to mission success:
 - Joint Strike Fighter (JSF). Fully funded the development of the alternative engine for the JSF to maintain performance and schedule. Added \$1.1 billion to the Future Years Defense Plan (FYDP).

- F/A-22. Recognizing concerns about the high cost of the platform, procurement was truncated after FY 2008 and the 2005 Quadrennial Defense Review was directed to assess joint air dominance, the integrated joint capabilities that contribute to it, and the appropriate contributions by all types of tactical aircraft to joint air dominance. Savings of \$10 billion were achieved.
- V-22 Aircraft. Reduced the procurement ramp for the V-22 aircraft to align procurement with an event-driven schedule – reduction of 22 aircraft and \$1.2 billion in the FYDP.
- Shipbuilding. Reduced the planned acquisition of several classes of ships due to their much higher capability, which allows a smaller number of ships to perform the roles of large numbers of less capable vessels. This change saved \$9.6 billion through the FYDP.
- Joint Common Missile (JCM) and Wind Corrected Munitions Dispenser – Extended Range (WCMD-ER). Proposed termination of JCM and procurement of WCMD-ER. Current programs and inventories can accomplish the mission. Savings of \$2.8 billion were achieved.
- Missile Defense. Refocused the organization on more cost-effective missile defense systems, while deferring high-risk, high-cost developments. This allowed for \$5 billion in savings through the FYDP.
- Various space programs. Removed \$1.7 billion from the FYDP by properly aligning terminals and need dates (schedule), correctly aligning installation funding with availability of equipment to be installed, and reflecting proper pricing based on historical experience.
- Family Housing. Reduced the Army's family housing construction program by \$100 million in FY 2006 and FY 2007 to take advantage of privatization efforts.
- Budget Execution. Adjusted programs to reflect poor execution and reapplied funding to higher priority efforts meeting performance criteria – Army, \$127 million; Navy, \$28 million; and Air Force, \$182 million.

Using the Program Assessment Rating Tool (PART), the Federal Government is systematically assessing its programs to identify opportunities for improving program effectiveness. The Department met the BPII goal of using the PART to assess programs representing 60 percent of its resources in the FY 2006 President's budget. The Office of Management and Budget (OMB) provided favorable ratings to most DoD PART programs. Of the 23 DoD programs assessed using the PART, OMB rated 19 (83 percent) as Adequate or better. The Missile Defense Program improved last year's Results Not Demonstrated (RND) rating to a Moderately Effective rating this year. The following chart provides a breakout of the ratings for the DoD PART programs. The Department also met the BPII goal that less than 10 percent of the Department's programs assessed using the PART were rated RND for more than 2 years in a row.



For the FY 2007 budget, the Department is working with OMB on PART assessments for eight new programs and reassessments for four programs that were initially assessed in previous budgets.

The Department developed and submitted the FY 2005 Emergency Wartime Supplemental Request for funds to finance continuing military operations in Iraq and Afghanistan. The request was formulated, in large part, by calculating the costs – based on current cost and performance data - for specific performance elements (e.g., the deployment of specific units to theater) and estimating the associated

operational tempo. Investment item requests were formulated based on specific near-term equipment and research and development requirements in direct support of military operations. The request incorporates validated cost data and projects time-phased financial requirements. As part of the Program-Budget Integration Assessments discussed above, the Department was able to reduce its base request for Operation and Maintenance funding by \$1.446 billion to offset the cost of the Supplemental.

The Department adjusted current year program funding based on program performance and reprogrammed these funds to support higher priority items – Army, \$565 million; Navy, \$561 million; Air Force, \$677 million; and Defense-Wide, \$272 million.

On June 7, 2005, the Deputy Secretary of Defense initiated an Acquisition Action Plan, an integrated acquisition assessment which will consider every aspect of acquisition, including requirements, organization, legal foundations (like Goldwater-Nichols), decision methodology, oversight, checks and balances – every aspect. The effort will lead to better linkage between program performance and budget.

The Financial Management Transformation Team (FMTT), within the DoD Business Management Modernization Program (BMMP), has established Financial Visibility as its core enterprise priority. Financial Visibility is the immediate access to accurate and reliable financial information (planning, programming, budgeting, accounting, and cost information) essential to supporting efficient decision-making throughout the Department. In support of the Financial Visibility priority, FMTT defined six core capabilities: 1) Forecast, Plan, Program and Budget; 2) Manage Financial Assets and Liabilities; 3) Funds Allocation, Collection, Disbursement and Control; 4) Manage General Ledger; 5) Managerial Accounting; and 6) Financial Reporting. The Standard Financial Information Structure (SFIS) initiative and the Program Budget Framework are among the current initiatives that support the enhancement of these capabilities. The SFIS is designed to be a data structure that supports information/data requirements for budgeting, financial accounting, cost/performance management, and external reporting across the DoD enterprise. The planned actions for SFIS Phase 1 are to complete the definition of those common data elements and work with both existing and emerging systems to support the deployment of SFIS-compliant data. DoD is developing the Program Budget (P/B) Framework as the foundation for a new program and budget data structure utilizing a common language that enables senior-level DoD decision makers to weigh options versus resource constraints across a spectrum of challenges based on the DoD risk management framework. The P/B Framework will incorporate linkages to the SFIS.

Competitive Sourcing Initiative

For the American people to receive maximum value for their tax dollars, all commercial activities performed by government personnel should be subject to the forces of competition.

Focus on Outcome and Efficiency Goals

The Department utilizes its process of “competitive sourcing” only when it makes military and economic sense to do so. Competition is the driving force within the American economy, causing organizations to improve quality, reduce cost, and provide rapid delivery of better products and services. We continue to utilize the process of public-private competition to obtain services clearly identified as commercial improving support to the warfighter and increasing readiness.

“The Navy completed two competitions in Navy Region Northwest, both won by the government Most Efficient Organization (MEO), resulting in \$86.6 million in annualized savings.”

Competitive Sourcing has produced significant savings for DoD Commercial Activities Management Information System reflects DoD competitions from FY 00 to the present will produce an estimated savings (cost avoidance) of nearly \$10 billion through the periods of performance regardless of who ultimately won the competition.

Right Person in Right Job at Right Time

We are committed to providing all responsible officials with the training required to meet their new and expanded duties required to successfully execute the Department’s competitive sourcing program. Courses are being developed by the Defense Acquisition University to ensure the training is timely, effective and consistent across the Department. Prior to competing a function, the government defines it’s requirements with both the in-house and contractor workforces independently determining how they will perform the function. When the decision favors contract performance, the contractor normally hires much of the existing workforce. The process reinforces the competitive process ensuring we have the right person for the job.

Timely, Accurate Information with which to Make Smart Decisions

Our web-based data information system provides the department with real time daily updates on the status of competitive sourcing initiatives. This

information is used to determine the health of the program and ensure costs and savings are identifiable and accessible, allowing managers to make timely and informed decisions.

In addition, the use of the standard Competitive Sourcing costing software, COMPARE, ensures the government makes the correct choice on service provider be it government or private sector.

Scorecard Process Reinforces Continual Improvement

The Scorecard process is used to track and review plans, execution and savings for the Department's competitive sourcing program. The programs of individual services are reviewed by the Department's Competitive Sourcing Official (CSO). Each of the Services and Defense Agencies plan to announce new competitions in FY 2005 and thereafter, which will be tracked through completion and implementation.

Because announcements of new competitions for FY 2005 lagged behind projections, the Department's CSO has met with all Components to emphasize the need to increase the pace of the program. The incremental cost of competitions is now tracked in our Commercial Activities Management Information System (CAMIS).

Performance, Results, Professionalism

The Navy completed two competitions in Navy Region Northwest, both won by the government Most Efficient Organization (MEO), resulting in \$86.6 million in annualized savings. The success of the cost comparisons for Command Support and Facilities Management can be attributed to four elements: focused, top management attention, an informed and involved workforce, developing complete, performance-based Performance Work Statements (PWS), and setting high standards for teams preparing the In-House Cost Estimates.

Focused, top management attention started with an Executive Steering Committee (ESC) that met monthly. The ESC provided regional oversight, guidance and decision making for key components of the strategic sourcing program. A separate study team was created for each of the five areas under study. Each of these Team Leaders was responsible for establishing working teams and accomplishing specific actions to meet the milestones set in the regional Plan of Action and Milestone (POA&M). Each team had access to a representative from the Human Resources Office, labor organizations, contracting offices, and comptroller to provide support as required. Consultant contractor support was also dedicated to support each team.

Ultimately, the success of this study and achievement of true savings will be realized by addressing the cultural hurdles and of embracing the reengineered work processes, funding and integrating the new technology tools with the existing systems, and ensuring a complete and seamless integration.

Managing Real Property Assets

The Department has developed and implemented a comprehensive plan to improve real property management with the ultimate goal of ensuring that the right assets are available when and where needed with the capabilities necessary to support the warfighter. Accurately capturing the real property inventory, and continuing to refine performance measures that monitor how well we sustain, restore and modernize our facilities are integral steps in accomplishing that goal. The Department's plan to monitor progress, identify and correct deficiencies, and address overall management of its real property includes:

- Increased visibility of the assets under management through improved real property inventories.
- Application of requirements models based on accurate and auditable commercial benchmarks and tied directly to the existing and forecasted assets.
- Standardization of performance targets across the Department through improved planning guidance.
- Implementation of mechanisms for continuous tracking of performance through the programming and budgeting cycle.
- Controlling the size of the Defense footprint through incentives and robust demolition and disposal programs, including BRAC 05.
- An up-to-date asset management plan including goals and timelines, linked to and consistent with higher order plans and priorities.
- Achieving full sustainment funding levels to prevent waste through deterioration and loss of service life.
- Reaching a recapitalization rate that matches the expected service life of the assets under management, to prevent loss of effectiveness through obsolescence.

The Department's plan is consistent with Executive Order 13327 which established the Federal Real Property Council (FRPC) to provide an interagency approach to Real Property Management. DUSD(I&E) serves as the Department's Senior Real Property Official and chairs the FRPC Inventory subcommittee. To date, the FRPC has focused primarily on two issues: (1) accurate and timely real property data and (2) excess capacity. The Department is a recognized leader on these two concerns, and is well-positioned, having already invested considerable effort in developing improved real property inventories and in disposing of obsolete and excess assets.

The new requirements models for programming and budgeting are driven by the Department's real property inventories, and that process has motivated the development of more accurate and timely data within the Department. Additionally, to improve asset accountability, the Department has developed a real property unique identification concept. All assets have a DoD-wide unique identifier, allowing management and financial systems to be able to better track environmental, operational, and financial data to real property. This concept is being reviewed by industry and other Federal agencies for use outside of DoD.

"In the areas of Facilities Sustainment and Facilities Recapitalization, the Department established goals in the 2006-2011 Strategic Planning Guidance to achieve, by FY 2008, full sustainment (100% funding of standard benchmarks) and a recapitalization rate at least equal to the service life of facilities (67 years on average)."

Conclusion

As illustrated in our results, much of the President's Management Agenda was being pursued within the Department prior to the publication of the Management Scorecard. We continue to re-examine our transformational plans and outcomes to make adjustments as lessons are learned and best practices are successfully executed. The political, technological and economic realities dictate that we examine fundamental changes to our business practices, force structure and culture. New threats require new defenses, streamlined processes, improved efficiencies, and less duplication and redundancy. Transforming the Department will enable the U.S. to defeat terrorists, meet all other threats to our national interests, and benefit DoD military and civilian personnel, as well as American citizens. We are fully committed to the accomplishment of the President's Management Agenda, which we believe will reinforce the transformation we have already undertaken.